



United States
Department of
Agriculture

Rural Development
Rural Business -
Cooperative Programs
Rural Housing Programs
Rural Utilities Programs

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February 27, 2002

TO: State Approved SF-GRH Lenders

ATTN: Servicing and Loss Claim Managers

SUBJECT: SF-GRH
Future Recovery of Real Estate Owned Sale Proceeds

To control the cost of REO property management and disposition and encourage its expeditious sale, RHS establishes a settlement date for loss claims. For REO sold within six months of the acquisition date (the date of foreclosure sale or deed-in-lieu recordation), the settlement date is the date of the REO sale. For REO unsold during that time period, the settlement date is six months from the acquisition date, unless a thirty-day extension is authorized by RHS for a property under a sale contract. In any case, when the settlement date is reached, allowable interest accrual ceases and the loss claim must be filed within 30 days.

The basic loss claim calculation is the total debt owed the lender less the security property sale proceeds. The total debt includes unpaid principal, authorized protective advances, interest accrued through the settlement date, foreclosure expenses, and REO management and resale expenses. In order to have a loss claim based on actual REO expenses and sale proceeds; REO must be sold within six months of the acquisition date. A loss claim on unsold REO is based on estimated net sale proceeds, using an estimated sale price and estimated REO expenses.

For a claim calculation on unsold REO, the estimated sale price is based on a third-party liquidation value appraisal obtained by the Agency. A liquidation value is used because it takes into consideration the market pressures on a distressed property. This appraised value is multiplied by a cost factor to estimate REO expenses. The cost factor, developed and updated periodically by Veterans Affairs (VA), is based on a three-year average of VA acquired property operating expenses, selling expenses, and administrative expenses. It also includes the cost of repairs to bring the property to minimum property standards. Attachment 1 is an example comparing two loss claims on the same REO, one sold and one unsold at the time of claim calculation. In the example, the claim on the unsold REO results in the greater loss payment of \$21,238.13. Also note that the loss claim based on an estimated sale price of \$76,500, multiplied by the current factor of 11.87 percent, reimburses the lender \$9,080.55 for estimated REO property management and disposition expenses.

Agency staff will contact the lender six months after payment regarding REO for which a claim was paid based on estimated sale proceeds. If the REO has sold, agency staff will request a HUD-1, Settlement Statement or similar documentation to document the sale information at that time.

When the REO associated with a claim based on estimated sale proceeds is ultimately sold, the actual contract sale price may be higher than the appraised value used for the claim. If so, the difference (between the sale price and the appraised value) is considered future recovery to be shared between the Agency and the lender at the same ratio as the estimated loss. Attachment 2 is an example of a future recovery calculation for the unsold REO referenced in Attachment 1. Note in this example that, even with the shared recovery due to RHS of \$2,350, the lender's net loss claim ($\$21,238.13 - \$2,350 = \$18,888.13$) is greater than if the property had been sold several months earlier at the same price.

When the actual sale price results in future recovery, the lender may document and deduct certain REO costs that were not considered in the original claim. A HUD-1, Settlement Statement, normally provides the necessary documentation, but other similar documentation may be used. The combined deduction cannot exceed the difference between the actual contract sale price and the estimated sale price (appraised value) used for the claim. The following items may be deducted from future recovery of sale proceeds:

- costs of additional property improvements (not repairs, and not considered in the estimated sale price or appraised value used for the claim) that directly resulted in an increased property value and sale price.
- additional real estate commission based on the difference between the actual contract sale price and the estimated sale price (appraised value) used for the claim, and
- additional seller concessions (beyond what is typical and customary for the area and thus included as estimated REO expenses in the claim) that directly resulted in an increased sale price.

When made aware of future recovery, RHS will prepare a future recovery worksheet (included in the Excel workbook sent out earlier by e-mail) and notify the lender of the future recovery due to RHS. When the payment is received from the lender, RHS will report the future recovery and remit the payment according to the User's Guide for the Automated SF-GRH Loss Claim Process-Future Recovery Calculator, previously distributed with RD AN No. 3564, dated August 17, 2000, copies of which are provided on our website.

Questions may be directed to Michelle C. Corridon, SF-GRH Specialist, at 804/287-1595.

We appreciate your attention to this matter and your participation in the SF-GRH program.

Sincerely,

/s/
JOSEPH W. NEWBILL
State Director
USDA Rural Development

Borrower: Doe, J.		Sold REO		Unsold REO
Date of Claim:		3/1/01		4/1/01
Prin & Int				
Prin Balance Debt		\$ 80,766.00		\$ 80,766.00
	Int. Rate	0.075	Int. Rate	0.075
	Int. Basis	360	Int. Basis	360
	Daily Interest Accrual	\$ 16.8263	Daily Interest Accrual	\$ 16.8263
	Date last pmt Due	03/01/00	Date last pmt Due	03/01/00
	Acquisition Date (Acq)	09/01/00	Acquisition Date (Acq)	09/01/00
	Settlement Date (Stlmt)	02/01/01	Settlement Date (Stlmt)	03/01/01
	Days / last pmt & Stlmt	337	Days / last pmt & Stlmt	365
Accrued Int Debt		\$ 5,670.45		\$ 6,141.58
Prin Balance Protective Advance				
	Int. Rate		Int. Rate	
	Int. Basis		Int. Basis	
	Date of Advance		Date of Advance	
	Days / advance & stlmt		Days / advance & stlmt	
	Daily Interest Accrual		Daily Interest Accrual	
Accrued Int Protective Advance				
Total Prin & Int = 5+13+14+20		\$ 86,436.45		\$ 86,907.58
Liquidation / REO Expenses				
Foreclosure Costs		\$ 1,750.00		\$ 1,750.00
Sold REO or 3rd Party Sale Costs		\$ 5,990.00		\$ -
			RHS Appraised Value	\$ 76,500.00
			REO Cost Factor	0.1187
Unsold REO Costs		\$ -		\$ 9,080.55
Total Expenses		\$ 7,740.00		\$ 10,830.55
Net Recovery				
Sale price	Actual	\$ 79,000.00	Estimated	\$ 76,500.00
Other recovery				
Total Recovery (34 + 35)		\$ 79,000.00		\$ 76,500.00
Total Expenses (31)		\$ 7,740.00		\$ 10,830.55
Net Recovery		\$ 71,260.00		\$ 65,669.45
Max Loss Calculation				
Original Loan Amt.		\$ 85,000.00		\$ 85,000.00
*.90		0.9		0.9
Maximum Loss Payable		\$ 76,500.00		\$ 76,500.00
1st 35 %		\$ 29,750.00		\$ 29,750.00
Adjustments to Loss:				
Reduced Claim				
Denied Claim Amounts				
Total Adjustments				
LOSS PAYABLE:				
Total Prin & Int		\$ 86,436.45		\$ 86,907.58
Net Recovery	Actual Net Recovery	\$ 71,260.00	Estimated Net Recovery	\$ 65,669.45
Total Adjustments		\$ -		\$ -
Loss=Total Debt less Net Recovery		\$ 15,176.45		\$ 21,238.13
Loss (Up to 35% of Loan Amt.)		\$ 29,750.00		\$ 29,750.00
Loss Exceeding 35%		\$ -		\$ -
Shared Loss * 85%		\$ -		
Total Loss Payable to Lender		\$ 15,176.45		\$ 21,238.13

BORROWER NAME:	Doe, J.
RHS CASE NUMBER (99-99-999999999 Format):	00-00-00000000
LENDER LOAN NUMBER:	
LENDER TAX ID NO. (9 digit number):	00-0000000
LENDER NAME:	Giant S&L
DATE OF ORIGINAL LOSS CLAIM (mm/dd/yyyy):	4/1/2001
SEE THE "USER'S GUIDE" FOR COMPLETE INSTRUCTIONS ON USING THE "FUTURE RECOVERY CALCULATOR"	
TOTAL LOSS (Form RD 1980-20, Item 33, or Item 50 if additional interest was paid)	\$21,238.13
TOTAL COMPUTED LOSS PAYABLE (Form RD 1980-20, Item 38 or Item 55 if Additional Interest paid)	\$21,238.13
ORIGINAL LOAN AMOUNT (Item 27 of Form RD 1980-20)	\$85,000.00
APPRAISED VALUE (Item 23 of Form RD 1980-20)	\$76,500.00
AMOUNT REO PROPERTY WAS SOLD TO THIRD PARTY (Contract Price)	\$79,000.00
DIFFERENCE BETWEEN APPRAISED VALUE AND AMOUNT SOLD TO 3rd PARTY (Automated)	\$2,500.00
ALLOWANCE FOR ADDITIONAL COMMISSIONS AT 6% (Based on above result) (Automated)	\$150.00
COST OF CAPITAL IMPROVEMENTS DIRECTLY RESULTING IN AN INCREASED SALE PRICE	
ADJUSTED SALE PRICE (Automated)	\$78,850.00
NET DIFFERENCE BETWEEN APPRAISED VALUE AND ADJUSTED SALE PRICE TO 3rd PARTY (Automated)	\$2,350.00
OTHER RECOVERY NOT IN ORIGINAL CLAIM (Judgment, Insurance claim, etc.)	
SUM OF PREVIOUSLY REPORTED RECOVERY (Not included in original Claim)	
SUM OF PREVIOUSLY REPORTED RECOVERY PAID TO RHS	
35% of ORIGINAL LOAN AMOUNT (Automated)	\$29,750.00
TOTAL AMOUNT OF LOSS > 35% OF LOAN (Automated)	\$0.00
TOTAL AMOUNT OF RECOVERY (Automated)	\$2,350.00
<u>ALLOCATION OF RECOVERY:</u> <u>Split between RHS and Lender</u>	
RHS's 85% OF AMOUNT OF RECOVERED LOSS > 35% OF LOAN (Automated)	\$0.00
LENDER'S 15% PORTION OF LOSS > 35% OF LOAN (Automated)	\$0.00
<u>SUMMARY OF TOTAL TO RHS:</u>	
RHS's 100% of the Difference Between Total Recovery & Loss over 35% (Automated)	\$2,350.00
RHS's 85% OF SPLIT (Automated)	\$0.00
(LESS) PREVIOUS RECOVERY PAYMENTS MADE TO RHS (Automated)	\$0.00
AMOUNT LENDER TO PAY RHS (Maximum capped at Total Loss) (Automated):	\$2,350.00